

## Message Text

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ACTION EUR-12

INFO OCT-01 EA-07 IO-13 ISO-00 SP-02 USIA-06 AID-05 EB-07  
NSC-05 CIEP-01 SS-15 STR-04 OMB-01 CEA-01 CIAE-00  
FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01  
PA-01 PRS-01 /102 W  
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R 131649Z JAN 77  
FM AMEMBASSY LONDON  
TO SECSTATE WASHDC 9438  
TREASURY DEPT WASHDC  
INFO AMEMBASSY BONN  
AMEMBASSY DUBLIN  
AMEMBASSY PARIS  
AMEMBASSY ROME  
AMEMBASSY TOKYO  
AMCONSUL BELFAST  
AMCONSUL EDINBURGH  
USMISSION EC BRUSSELS  
USMISSION OECD PARIS  
USDOC WASHDC  
USDEL MTN GENEVA

C O N F I D E N T I A L SECTION 01 OF 02 LONDON 00605

DEPARTMENT PASS FRB AND LABOR

TREASURY FOR DONALD E. SYVRUD, OASIA

E.O. 11652: N/A  
TAGS: EFIN, ECON, UK  
SUBJECT: THE NEW INDUSTRIAL STRATEGY -- EMERGING  
DIFFICULTIES

REFS: (A) LONDON 17108, 11/7/75; (B) LONDON 10632, 7/8/76

SUMMARY: FOR NEARLY 15 MONTHS, THE NEW INDUSTRIAL STRAT-  
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EGY (REFS A AND B) HAS CONCENTRATED LARGELY ON RHETORIC  
AND WORKED TO DEFINE THE STRUCTURAL PROBLEMS FACING  
BRITISH INDUSTRY. A CRUCIAL STAGE IS NOW AT HAND AS THE  
NATIONAL ECONOMIC DEVELOPMENT COUNCIL, WITH THE PRIME  
MINISTER LIKELY TO BE IN THE CHAIR, PREPARES FOR ITS  
MEETING ON FEBRUARY 2. WHILE THE MEETING IS INTENDED TO  
LAUNCH A MORE ACTIVE PHASE, THERE IS SOME INDICATION THAT

THE EXERCISE IS BEGINNING TO BOG DOWN IN CONFLICTING POLITICAL PRESSURES, FASCINATION WITH NUMBERS RATHER THAN SOLUTIONS, AND UNIMAGINATIVE BACKSTOPPING BY THE RESPONSIBLE GOVERNMENT DEPARTMENTS. THE PRIME MINISTER'S REPORTED DECISION TO TAKE DIRECT CHARGE OF INDUSTRIAL POLICY APPARENTLY CONFIRMS THESE DIFFICULTIES AND INDICATES A FIRM INTENT ON HIS PART TO OVERCOME THEM. END SUMMARY.

1. THE SECOND PHASE OF THE NEW INDUSTRIAL STRATEGY WILL BE LAUNCHED AT THE FEBRUARY 2 MEETING OF THE NATIONAL ECONOMIC DEVELOPMENT COUNCIL (NEDC). THIS WILL BE THE FOURTH MONTHLY NEDC MEETING DEVOTED TO INDUSTRIAL STRATEGY SINCE ITS NOVEMBER 1975 LAUNCHING AT CHEQUERS. IN JULY 1976, THE COUNCIL RECEIVED 39 INDIVIDUAL REPORTS DRAWN UP BY THE SECTOR WORKING PARTIES. THE REPORTS WERE HURRIEDLY DRAFTED, UNEVEN IN QUALITY AND WEIGHTED TOWARD RECOMMENDATIONS FOR GOVERNMENT RATHER THAN INDUSTRY ACTION. THE NEDC ACCEPTED THESE REPORTS, INSTRUCTING THE WORKING PARTIES TO REFINE THE ORIGINAL REPORTS AND PRODUCE MORE DETAILED PLANS TO IMPLEMENT THOSE RECOMMENDATIONS WHICH DID NOT DEPEND ON SPECIFIC ACTION BY THE GOVERNMENT.

2. THE SECOND SET OF REPORTS, NOW LARGELY COMPLETED ARE, ACCORDING TO A SOURCE ON THE NEDC STAFF, A MIXED BAG. MOST CENTER ON DISCUSSIONS OF A DESIRABLE RATIO OF EXPORTS TO OVERALL OUTPUT. THE SOURCE ADDED THAT DISCUSSION OF SUCH QUANTITATIVE TARGETS SERVED TO DIVERT ATTENTION FROM EFFORTS TO RESOLVE THE FUNDAMENTAL STRUCTURAL

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PROBLEMS OF PARTICULAR SECTORS: BAD MANAGEMENT, OVERMANAGING, LOW INVESTMENT, ETC.

3. MUCH OF THIS FASCINATION WITH QUANTITATIVE TARGETS STEMS FROM THE LEAD GIVEN BY THE INTER-AGENCY COMMITTEE BACKSTOPPING THE SECTOR WORKING PARTIES. THE COMMITTEE (CHAIRMANED BY ALAN LORD OF HMTREASURY) IS COMPOSED OF REPRESENTATIVES OF THE DEPARTMENTS OF INDUSTRY, TRADE AND EMPLOYMENT, AND THE NATIONAL ECONOMIC DEVELOPMENT ORGANIZATION. AS EXPLAINED TO US, THE COMMITTEE HAS FOUND IT EASIER TO PRESS AHEAD WITH AN APPROACH BASED ON SIMPLE TARGETS FOR A VARIETY OF REASONS. MEMBERS OF THE COMMITTEE ARE ALL GENERALISTS WITHIN THEIR OWN BUREAUCRACIES. THEY HAVE NOT SEEN ANY WISDOM IN GIVING THE COMMITTEE AN INDEPENDENT ANALYTICAL CAPABILITY WHICH COULD BE PROVIDED BY A GROUP OF ADVISORS VERSED IN ECONOMICS, INDUSTRIAL POLICY, FINANCE OR OTHER FIELDS RELATED TO THE STRUCTURAL NATURE OF THE EXERCISE. THUS DEPRIVED OF EXPERT ADVICE, THE COMMITTEE IS MORE RESPONSIVE TO DIFFERING PRESSURES

FROM THE TUC, INDUSTRY AND THE CABINET.

4. THE RESULT HAS BEEN A SITUATION WHERE THE COMMITTEE, IN EFFECT, HAS BEEN TACITLY URGING THE SECTOR WORKING GROUPS TO GIVE THE APPEARANCE OF MOTION WITHOUT ACTUALLY JEOPARDIZING THE STATUS QUO. THIS MEANS AVOIDING THE

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KIND OF MARCHING ORDERS THAT LEAD TO RECOMMENDATIONS WHICH MIGHT SERIOUSLY THREATEN EXISTING MANAGEMENT INCOMPETENCE WHERE IT EXISTS OR PRODUCE SIGNIFICANT SHORT-RUN UNEMPLOYMENT AND RISK THE LOSS OF TRADE UNION SUPPORT. BY CENTERING DISCUSSIONS ON NUMERICAL EXPORT SHARES, IT WAS POSSIBLE SIMULTANEOUSLY FOR CONCERNED CABINET DEPARTMENTS TO ANTICIPATE HIGHER EXPORTS WHILE ALLOWING UNIONS

AND MANAGEMENT TO FEEL MORE SECURE ABOUT EXISTING JOBS  
AND PRODUCTION PRACTICES.

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5. THE RESISTANCE TO NECESSARY RESTRUCTURING IN SOME SECTORS IS POWERFUL. ACCORDING TO THE ABOVE-MENTIONED SOURCE, IN ONE RELATIVELY NARROW SECTOR, WHOSE PERFORMANCE RELATIVE TO SIMILAR INDUSTRIES ABROAD HAS BEEN DETERIORATING STEADILY, POOR MANAGEMENT PERFORMANCE HAS BEEN LARGE-LY RESPONSIBLE. YET, IT HAS NOT BEEN POSSIBLE WITHIN THE CONTEXT OF THE EXERCISE, LARGELY FOR POLITICAL REASONS, TO CONFRONT THE INDUSTRY WITH THE FACTS AND CONVINCE THEM THAT A PROBLEM EXISTS. IN EFFECT, SINCE THAT INDUSTRY IS MANAGING TO SCRAPE ALONG, IT HAS BEEN LOATH TO RECOGNIZE THE NEED FOR CHANGE. HOWEVER, IN THE NOT-TOO-DISTANT FUTURE, IT IS VIRTUALLY CERTAIN THAT THE INDUSTRY'S STRUCTURAL DEFICIENCIES WILL FORCE FIRMS IN THIS SECTOR TO GO FIRST TO THEIR BANKS AND THEN TO THE GOVERNMENT FOR CONSIDERABLE FINANCIAL ASSISTANCE. GIVEN THE LARGE NUMBER OF JOBS INVOLVED, IT IS LIKELY EITHER THEY WILL GET IT, OR IF NOT, THE GOVERNMENT WOULD BECOME MORE ACTIVELY INVOLVED IN THE INDUSTRY. THE SECURITY OF THIS KNOWLEDGE LENDS FURTHER STRENGTH TO MANAGEMENT TO RESIST EXTERNAL PRESSURES FOR CHANGE.

6. COMMENT: ANY REASONABLE ASSESSMENT OF THE ACHIEVEMENTS OF THE NEW INDUSTRIAL STRATEGY TO DATE WOULD HAVE PRECIOUS LITTLE TO HOLD UP IN THE WAY OF POSITIVE CHANGE IN THE STRUCTURE OF A PARTICULAR SECTOR. THIS IS NOT ALL THAT SURPRISING GIVEN A PROBLEM WHOSE SOLUTION CAN ONLY BE ACHIEVED OVER A PERIOD YEARS RATHER THAN MONTHS. NEVERTHELESS, THE MANNER IN WHICH HMG HAS GONE ABOUT ORGANIZING THE TASK HAS REVEALED AN INABILITY TO GRASP THE FUNDAMENTALS OF BRITAIN'S INDUSTRIAL MALAISE AT THE SENIOR CIVIL SERVANT LEVEL. GOOD INTENTIONS NOTWITHSTANDING, THE EVIDENCE SEEMS TO BE THAT SENIOR CIVIL SERVANTS HAVE NOT RESPONDED CREATIVELY TO THE OPPORTUNITIES PRESENTED BY THE ESTABLISHMENT OF THE WORKING PARTIES.

THE INITIAL SET OF REPORTS, DESPITE THEIR UNEVENNESS, SERVED THE USEFUL PURPOSE OF CASTING LIGHT ON MANY OF THE  
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VERY REAL PROBLEMS CONFRONTING THEIR SECTORS. THE COMMITTEE HAS APPARENTLY BEEN UNABLE OR UNWILLING TO TAKE THE INDISPENSABLE NEXT STEP OF EXERTING PRESSURE ON THE WORK-

ING PARTIES AND THROUGH THEM ON INDIVIDUAL FIRMS TO BEGIN ACTING ON THE RECOMMENDATIONS CONTAINED IN THE REPORTS. TO SOME EXTENT THIS IS BECAUSE OF SHORT-RUN PRESSURES FROM VARIOUS QUARTERS TO TAKE THE EASY WAY OUT HAVE BEEN DIFFICULT TO IGNORE. IN ADDITION, THE MEANS AVAILABLE TO HMG TO EXERT DIRECT PRESSURE ON LABOR AND MANAGEMENT ARE LIMITED. MOST IMPORTANT MAY BE THE FACT THAT HMG, HAVING DECIDED TO BECOME MORE DEEPLY ENMESHED IN THE INNER WORKINGS OF INDUSTRY, EQUIPPED ITSELF WITH A GROUP OF GIFTED AND NOT SO GIFTED AMATEURS WITH LIMITED PRACTICAL INDUSTRIAL EXPERIENCE.

IT WOULD BE IRONIC INDEED IF A WELL CONCEIVED EXERCISE INTENDED TO CURE THE BRITISH DISEASE ITSELF FELL VICTIM TO THAT DISEASE. BUT THE POOR GOVERNMENT MANAGEMENT TO DATE SEEMS AN OMINOUS SYMPTOM. THE KIND OF MARCHING ORDERS TO THE SECTOR WORKING PARTIES APPROVED BY THE NEDC AT ITS FEBRUARY MEETING WILL REVEAL MUCH ABOUT THE PROBABILITIES OF SUCCESS FOR THE ENTIRE EXERCISE.

SINCE THIS WAS WRITTEN, THE FINANCIAL TIMES HAS REPORTED THAT THE PRIME MINISTER INTENDS TO TAKE DIRECT CONTROL OVER INDUSTRIAL POLICY. THIS WAS CONFIRMED TO US BY A SOURCE ON THE CALLAGHAN STAFF WHO ADDED THAT THE PM WOULD BE AUGMENTING THE ROLE OF THE NATIONAL ECONOMIC DEVELOPMENT ORGANIZATION. CALLAGHAN'S INTERVENTION MAY BREAK THE DEVELOPING LOG JAM AND PROVIDE THE EXERCISE WITH THE KIND OF IMPETUS THAT HAS SO FAR BEEN LACKING. HE CLEARLY INTENDS THAT IT SHOULD.

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## Message Attributes

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**Disposition Approved on Date:**  
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**Disposition Date:** 22 May 2009  
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**Status:** NATIVE  
**Subject:** THE NEW INDUSTRIAL STRATEGY -- EMERGING DIFFICULTIES  
**TAGS:** EFIN, ECON, UK  
**To:** STATE TRSY  
**Type:** TE  
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